RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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April 29, 1992 **LETTER 1094**

Apr. 16 DJIA 3366.50; PTI 3464; A-D Ratio -10.03
Apr. 24 DJIA 3324.46; PTI 3451; A-D Ratio -10.51
Dow Yield: 2.80%; Dow Price/Earnings: 58.3
Dow 200-day MA: 3093; Dow 30-day MA: 3251
Dow Times Book Value: 2.49; PTI 89-day MA: 3450
Percentage of Undervalued Blue-chips: 11%

THE MARKET: It may not look it, but this is a very exciting stock market. Why do I say that? I say it because we are seeing some very dramatic divergences in the various averages and indices. In fact, it's been a long time since we've seen such flagrant divergences.

If you've been in the Dow stocks, everything has been coming up roses. If you've been in more typical stocks, such as those characterized by the advance-decline ratio or the NASDAQ Index or even the AMEX Average you are probably close to, or actually, losing money.

The picture shows up clearly on the page 1 and page 2 charts. Referring to the page 1 chart of the Averages we see the Dow spurting to a record high of **3366.50** on April 16. The problem is that this was a solo flight, nothing else, no average or index confirmed. And that's not usually a happy sign.

But although it's not a totally happy picture, for the stock market student it's a fascinating market. I say this because we have excellent and fairly nearby low points to watch. The important low points are the April 8 lows of **3181.35** for the D-J Industrial Average and **1301.57** for the Transports. *From a Dow Theory standpoint, as long as one or both of the April 8 lows hold, the structure of this market will remain intact.*

However, if both of the April 8 lows are violated, you can label this market as bearish. But remember, a penetration of one Average alone is meaningless under Dow Theory. It takes penetrations by both Averages to render meaningful signals.

Here's another interesting phenomenon. In the face of the extraordinary action of the past few weeks, in the face of the 185 point Dow rally from April 8 to April 16, some short sellers have been making money. How could that be? The answer is seen on the page 2 chart. The advance-decline ratio (which is a good proxy for ALL the stocks on the NYSE) has been weak, very weak. And that means that a majority of stocks has been going down under the cover of the Dow rally.

Meanwhile, my Primary Trend Index (PTI) has been walking a tightrope (again see page 2 chart). The PTI broke below its moving average for a single day on April 8, then rallied. The rally failed to take the PTI to a new high, and the index then turned down again. At this point I'm most interested to see whether the PTI will hold above its last low -- or whether that low is fated to be broken. If it's decisively broken, that would constitute bearish action.

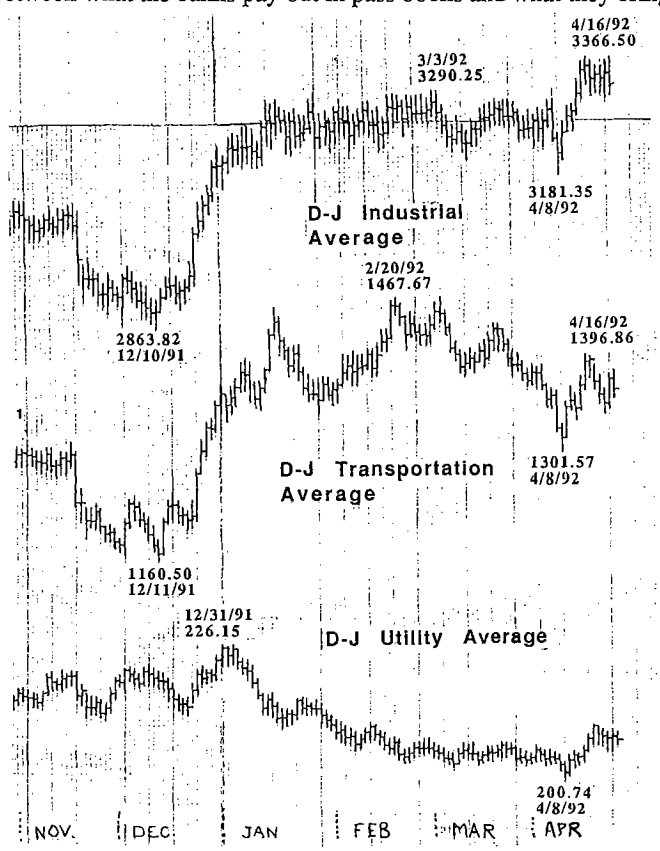
So as I said at first, this is a more exciting market than meets the eye. A lot of technical weakness has been masked by the persistent strength in the Dow. Flagrant divergences have appeared. Nevertheless, the important downside levels are there for us to watch. If this market is fated to hold together and remain bullish, we will see it clearly in the action of the Averages and the PTI. If the potential danger signals which are currently so visible turn into actual bearish penetrations by the Averages and the PTI, none of us should be caught by surprise.

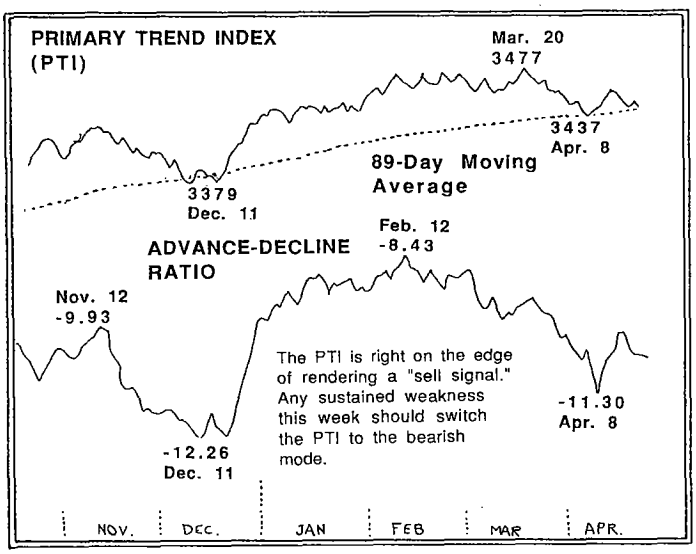
Conclusion: I never like a market in which the majority of stocks are sinking under the cover of strength in the Dow. Nevertheless, we must remember that the last confirmed direction of this market was bullish. For that reason we must still give the bull the benefit of the doubt. If the overall trend of the stock market is turning bearish, we need proof. The elements of proof have been clearly outlined above.

COMMON COMPLAINTS: (1) "My income has collapsed along with interest rates." (2) "What do I do with my money?" (3) "Taxes are killing me." (4) "Who the devil should I vote for?" (5) "Should I even vote?"

Answers: (For 1): Your income may be collapsing, but you're just going to have to stay the course. Remember the old Chinese adage, an adage that covers EVERY and ALL contingencies -- "This too shall pass." So cut down on your expenses and be patient. With the national debt heading skyward, it's just a matter of time before rates start up again (if they haven't already).
(2) T-Bills, CDs, Money Market Funds -- see answer 1.
(3) Taxes, pay 'em. Or maybe move to Italy, where, I hear, nobody pays their taxes.
(4) I'm voting for Perot if I get the chance. Would Perot be a good president? Could he be any worse than what we have now?
(5) Should I bother to vote at all? C'mon, all my subscribers vote.

THE ECONOMY: A panicked Fed has put the pedal to the metal. The banks are being flooded with reserves -- and the difference between what the banks pay out in pass books and what they bring





in buying Treasury paper is huge. So with low interest rates the Fed is really bailing out the banks. Yet commercial and industrial loans remain flat. The banks are not lending. Where's all that bank liquidity going? It's going to buy Treasury paper. And what liquidity there is in the economy, where's it going? It's going into the stock and bond markets.

Meanwhile, the $15 trillion in total US debt (government debt, private debt, corporate debt) continues to exert deflationary pressure, and all the Fed's horses and all the Fed's men can't seem to get re-inflation going again (at least so far).

You remember Paul Volcker, our previous Fed chief? Here's what he said on January 31: "It is clear that this is no normal cyclical circumstance in which the world economy finds itself. The US is now paying for the economic excesses of more than a decade. It has had low productivity gains for the past 20 years, low investment for the past 10 years, and a budget deficit for this year that is 'optimistically' projected at $399 billion. We cannot 'jump start' this economy. There is no way that it will work."

SENTIMENT: It seems to me that there are a few widely-held opinions that one could go contrary to. The first is expressed in the cover story in the April 20 issue of *Barron's*. The cover reads, *"The Big Money Just Loves This Market. New Survey Shows Pros Strongly Bullish."* My response: Gosh now that the pros are loaded with stocks, I guess they're just sitting there waiting for the market to go up and make them rich and right. Sounds like fun.

(2) "The bear market in Japan won't have any real effect on our market." Everybody's saying that. Even Alan Greenspan (in testimony before Congress) said that Japan won't exert any ill effect. Could Greenspan and all those Wall Street guys be right?

PARADOX: Investing is a funny business, and it can play with your mind. I just got a report from *The Martin Company* (101 Pass Rd., Gulfport, Mississippi 39507), and the report is called "The Paradox of Cash". Mr. Martin makes some rather fascinating observations. For instance, in the fall of '81 the Dow was selling at around 850 with a dividend yield of 7% and a P/E of 7%. At the same time the US Treasury issued a 20-year bond (non-callable) with a coupon of 15.75%. For four months after issuance those bonds sold below face value. Nobody wanted them, because people were convinced that interest rates were headed still higher. Besides, CDs at the time were paying 16% for six months, and that sounded a hell of a lot safer than bonds whose yields could go to 17%, 20% or who knew where.

So much for the fabulous bargains of 1981. What about today? Today we come to what Mr. Martin correctly terms "The Paradox of Cash." People who wouldn't touch stock or bonds in 1981 or 1982 have been rushing into the market today, loading up on bond funds that yield 5% and 6%, loading up on mutual funds that pay 1.5% to 4%, grabbing stocks which on average yield less than 3%. And the word is "cash is trash," so why not get rid of it and get into something "that might go up."

Ah, the great paradox. People "play it safe" and hoard cash when great values appear in stocks and bonds. And they unload their cash and savings when their securities are sky high and the odds of winning are as low as they ever get.

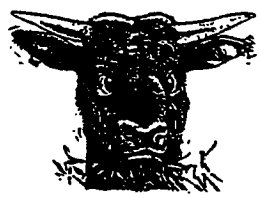
What do I mean, the odds on winning are as low as they ever get? All right, here are some odds. Analyst Steve Leuthold mapped out average S&P 500 yields for every quarter from 1926 through to the first quarter of 1991. He found that there were only FIVE quarters when the S&P yields were below 2.9%. By the way, the yield on the S&P is now 2.8%.

Here's a variation on those figures. Market Logic in Ft. Lauderdale researched how the S&P 500 did at various yield levels, and I include their statistics below. Note that when the yield is below 3% (as now), the S&P 500 was down an average 1% in six months, down an average 5% in one year, down an average 10% in two years and down an average 1% in three years. Now note the average appreciation statistics when the S&P 500 yields above 7%.

S&P 500 Dividend Yield
and Future Market Performance

S&P 500 Yield	6 Months	1 Year	2 Years	3 Years
Below 3%	– 1%	– 5%	–10%	– 1%
3% to 4%	+ 1%	+ 4%	+ 9%	+12%
4% to 5%	+ 7%	+14%	+21%	+26%
5% to 6%	+ 4%	+11%	+33%	+56%
6% to 7%	+ 6%	+12%	+32%	+45%
Above 7%	+ 8%	+29%	+42%	+63%
Average	+ 4%	+ 8%	+16%	+25%

INVESTMENT POSITION: The bull stays in the box. This is one stubborn, persistent bull. Even the thought of a presidential election with two candidates (Bush and Clinton) that nobody wants and a third (Perot) that few think can win doesn't halt the bull. The Japanese collapse hasn't stopped the bull, nor has a federal deficit that is beginning to resemble the infinite.



On the thesis that Hong Kong and China are the markets of the 1990s, I called my guy at Merrill Lynch and asked him to buy Bank of East Asia. He told me that Merrill listed the bank as OK to buy, but there weren't any ADRs on the stock, and if I wanted to buy it in Hong Kong, I would have to buy a minimum of $25,000 worth. I wasn't ready to do that, but there are ADRs on Hang Seng Bank (Hong Kong), and this is a bank I have recommended and still do recommend. Hang Seng Bank has 127 branches all strategically located in the territory. Other Hong Kong items that interest me are China Light and Power, Hong Kong Telecommunication, Hong Kong Electric and Winsor Industries (textiles). They all have ADRs.

RUSSELL'S GOLDEN RULE: Veteran subscribers know that my Golden Rule of Investing is **"Above all, don't lose money."** This may sound rather naive or even unimportant in the big scheme of things, but I assure you it is not.

A subscriber recently sent me the following study, which is both basic and dramatic. Let's assume that one's goal is a gain of 20% compounded annually. We'll use a time period of four years.

The investor starts with an initial investment of $1,000. At the end of the first year our investor has $1,200. At the end of the second year (remember, he's compounding) he has $1,440. At the end of the third year he has $1,728. And at the end of the fourth year he has $2,073.60.

Now let's assume that at the end of the fourth year our investor gets caught in a mild bear market and he loses 25% of his principal (rather than gaining 20%). Question: what growth rate would he require in each of the other three years to recoup the loss in the down-year while still maintaining his goal of 20% compounded over four years?

The answer is that our investor would have to show a gain of 40.35% in each of the other three years in order to reach his original goal of 20% compounded annually. What are the odds of our investor producing a 40.35% gain in three out of four years? My guess -- zero, nil, he can't do it.

Conclusion: (1) Recouping from a major loss (or a series of minor losses, are you listening commodity traders?) is extremely difficult.

(2) Avoid buying in high-risk areas or evident market tops because if you suffer a big loss you'll spend a heck of a lot of time trying to make up for your losses.

(3) Buy in low risk areas, areas where stocks offer great value, and where the odds for an extended rise are good.

(4) From the above, you can see why, over any extended length of time, the average person loses money in the stock market. It's that single loss year out of every four, five or six, that kills him.

SEMINAR: I used to speak at maybe five or six seminars a year. That was back in the glowing '60s and '70s. Now I may speak at one or two a year. But one I really enjoy is the seminar given by Charles and Kim Githler in San Francisco. These two do a consistently great job, they invite top people to speak, and they are very professional.

Therefore, I highly recommend the **14th annual San Francisco Investment Conference** scheduled for July 15-19 in San Francisco. There will be a veritable herd of fine speakers including Stephen Leeb, Robert Bleiberg, Stan Weinstein, Elaine Garzarelli, William Donohue, Norm Fosback, Charles Allmon, and on and on and on.

These ISI conferences always draw many of my own subscribers, and I have yet to hear a complaint. The seminar will be held at the historic Fairmont Hotel and the registration fee is $295 a person before May 15 and $395 a person after that date. For info: call (800) 266-0323 or fax (813) 957-3075. You won't be disappointed.

Years ago I predicted that the number one problem for the average American during the '90s would be income -- how to bring in enough income to keep up your standard of living. Income is going to be the theme of this seminar. One more thing -- if you're a Chinese food freak as I am, San Francisco is heaven on earth.

NOTES & QUOTES: I had a long phone conversation last week with my old friend, Joe Granville. Joe tells me he's working on three more books, the first to come out in about a year. Joe has probably added more to technical analysis than any person living today. I started exchanging reports and ideas with Joe back in 1961, when he left E.F. Hutton and started publishing his own fine report. We've been exchanging services for over thirty years, and we've seen a lot of bull and bear markets come and go and a lot of advisories come and go.

Some good news: Joe told he that after fifty years of smoking three packs of cigarettes a day, he quit two years ago, quit cold turkey. "Great," I said, "but how'd you do it?" Joe said he woke up one morning, and reached for a cigarette, whereupon his wife, Karen, warned, "Joe, if you smoke one more cigarette I'm leaving you." So Joe told me, "I knew she meant it. So I sat back and pondered whether I wanted to quit smoking or whether I wanted to spend the rest of my life living alone. I voted to quit smoking, and I never looked back." I told him it was the best move he ever made. More power to you, Joe.

* *

The "in" thing to do now is to hide your wealth. Got a Rolex, a 10-carat diamond, a Ferrari, a Cartier clock, a mink coat? The operative expression today is "stealth wealth." With the current bash-the-rich attitude and with street crime rampant, the rich are hiding their wealth, stuffing their jewels in the vault, storing their furs in mothballs, and putting the Rolls Royce up on blocks. Faux jewels, stainless steel Rolexes and Fords and Hondas are the items to be seen with today. Let me put it this way, you can own diamonds and rubies as a store of value, but don't wear them. Hold 'em for the year 1996 or 2010 -- things are supposed to be better then (that's if we get Ross Perot, who says that sure as shootin' he'll declare war on crime).

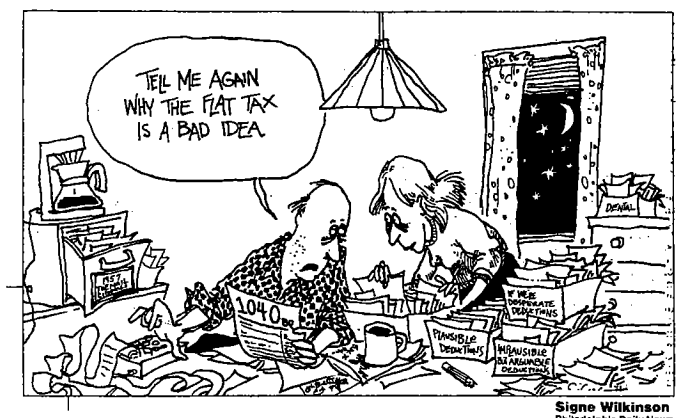
* *

Being a lefty myself, I am fascinated by this fact: all three candidates, Bush, Clinton and Perot (and I'm assuming Perot is a candidate) are lefties. I don't know exactly what this portends, but it makes me feel like less of an outcast. This world was not made for us lefties (maybe that's why Napoleon, who was a lefty, wanted to rearrange the world).

Speaking of candidates, in a late-April poll Perot beat out Bush in the state of Texas (Bush calls himself a Texan). Texas is considered a must-win state for Bush, and I note now that the commentators are beginning to take Perot seriously. GOP Theoretician Kevin Phillips says that Perot "has three things going for him. The fact that record numbers of people think the country is going in the wrong direction, that two of the candidates have such incredible weaknesses, and that Perot has all that money to spend."

* *

The flat tax, which I have been advocating, is taking a terrific verbal beating from those who have a vested interest in our present insane tax system. If one picture is worth a thousand words, maybe this one qualifies:



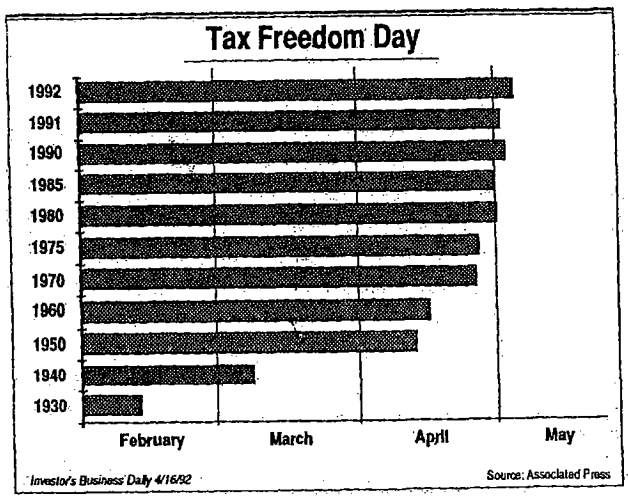
Signe Wilkinson
Philadelphia Daily News

* *

Now here's a telling quote: *"We have a very good tax system in this country, and it would be a shame to throw it out, but we should bring back some progressivity-- it needs to be fine tuned."* That's a quote from the April 11 *NY Times,* and do you know who said it? Why no other than Thomas Bloch, president of H & R Bloch, Inc., the nations largest tax-preparation firm. Sure Bloch loves the current tax system, which is maybe the best reason yet for the flat tax (the flat tax, of course, would put Bloch out to pasture).

* *

Speaking of taxes, this is the Tax Foundation's way of dramatizing how Americans are affected by federal, state and local taxes. For the first four months of the year you work for government. But where do our tax dollars go today? They go for BIG government and a massive military that is slated to spend $1.5 trillion over the next five years (even though the US faces no major enemies any more). As Barbara Ehrenreich put it in her April 20 essay in *Time,* "Face it, there isn't much evidence of government any more other than the IRS . . . Infrastructure is a thing of the past. As for the widows and orphans, they can be found massing around the dumpsters, searching for viable crusts. Too bad the 1040 forms aren't edible. Too bad we can't use them to patch up the bridges."



FREE AT LAST?: Tax Freedom Day is the Tax Foundation's way of dramatizing how Americans are affected by federal, state and local taxes. For 1992, the date is estimated to be May 5, meaning that if every dollar earned during the first part of the year were earmarked for taxes, the average worker would be paid up on May 5.

* *

Russell comment: The sheer waste in the US is reaching fantasy proportions. Over a billion man-hours a year are spent deciphering and filling out tax forms. There are now roughly 100 million cases pending before the courts, almost one case for every other American. And time spent on compliance to government regulations is running into the tens of millions of man-hours. Remember the motto, KISS, "keep it simple, stupid"? Well, the first three words have been lost, but we still have the fourth.

* *

Flash! House Speaker Foley states that this year Congress will produce a balanced-budget amendment. Great, but it should have been done 15 years ago. How, I ask myself, can we wipe out a $434 billion deficit without throwing the nation into depression? Obviously, to erase the deficit taxes would have to be raised substantially, say by $100 billion. And there would have to be massive spending cuts amounting to hundred of billions. Where are these guys going to cut? It should be interesting.

* *

Another record: Current national debt is $3.885 trillion. One year ago it was $3.433. This means that over the last 12 months the true federal deficit was **$452 billion** or a staggering **$8.9 billion a week.** Absolute madness, and it's no wonder the politicians in Washington aren't talking about the deficit (but Ross Perot most definitely is). Speaking of the debt, do not miss the article in the current (April 27) *Barron's* by Michael Aronstein entitled, "Apocalypse Soon."

* *

As far as billions are concerned, one commentator suggests that there be a new law for politicians. They should be forced to say thousand million instead of "billion" and a thousand thousand million instead of "trillion."

* *

When I first came to San Diego in 1961 there was a small Chinese population and a total of two Chinese restaurants in the entire city. Things have changed, and now we have Chinese and assorted excellent Asian restaurants dotting the city. Asians love the weather here, and the Census Bureau shows the following population in San Diego: Asian Indians 5,039; Cambodians 4,185; Chinese 96,876; Filipino 95,949; Japanese 17,869; Koreans 6,722; Laotians 7,025; Pacific Islanders 13,715; Vietnamese 21,118.

* *

Speaking of Asia, the bear market in Tokyo has resulted in Japanese stock losses so far of $2.7 trillion. For comparison purposes, that's equal to 71% of the entire US national debt. The collapse has really hit the big Japanese banks (20 of the world's largest banks are Japanese). Six months ago Japanese banks were sitting on $200 billion in stocks. That hoard has now shrunk to $80 billion. This is worth considering: Japanese-owned banks in the USA account for 16% of all business loans and 35% of those loans are in California. Because of the troubles in Japan, these banks are very liable to halt their lending.

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The whole financial world is watching the Olympia & York situation. The company has roughly $19 billion in debt owed to 100 banks. Around $7 billion of their assets are tied up in the giant Canary Wharf project, and the situation borders on the fantastic. Canary Wharf is located 2.4 miles outside of London, and O & Y was to pay $700 million as their share of a subway connection between London and the Wharf. But O & Y passed on the government-imposed deadline for payment on the subway. This, said a London real estate agent, "made an already bad situation terrible." In other words, how do you get to Canary Wharf?

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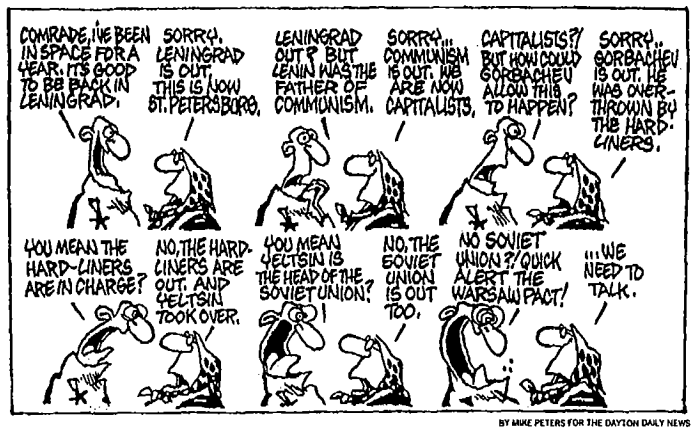
The situation in what used to be the Soviet Union can best be described as "fluid." That means that no one really knows what's going on. Again, the cartoonists seem to be best able to describe the situation. Try this one for size.


COMRADE, I'VE BEEN IN SPACE FOR A YEAR. IT'S GOOD TO BE BACK IN LENINGRAD.
SORRY, LENINGRAD IS OUT. THIS IS NOW ST. PETERSBURG.
LENINGRAD OUT? BUT LENIN WAS THE FATHER OF COMMUNISM.
SORRY... COMMUNISM IS OUT. WE ARE NOW CAPITALISTS.
CAPITALISTS?! BUT HOW COULD GORBACHEV ALLOW THIS TO HAPPEN?
SORRY, GORBACHEV IS OUT. HE WAS OVER-THROWN BY THE HARD-LINERS.
YOU MEAN THE HARD-LINERS ARE IN CHARGE?
NO, THE HARD-LINERS ARE OUT. AND YELTSIN TOOK OVER.
YOU MEAN YELTSIN IS THE HEAD OF THE SOVIET UNION?
NO, THE SOVIET UNION IS OUT TOO.
NO SOVIET UNION?! QUICK ALERT THE WARSAW PACT!
...WE NEED TO TALK.
BY MIKE PETERS FOR THE DAYTON DAILY NEWS

* *

I have a confession to make. I've lived in California for 31 years, I've been to Anaheim a number of times, but I've never been to Disneyland. Does that make me a subversive? Gosh, I hope not. Now Euro Disney has opened outside of Paris. One San Diegan who went there described it as follows: he says Europeans may not understand the rule that there is no liquor (not even beer or wine) and no cigarettes. Also there a very strict dress code for employees including no mustaches or beards for men, no short skirts for women, minimum makeup, etc. The adult admission is high ($40 vs. $27.50 in Anaheim). And it's even more commercial than Anaheim. "At the end of every ride," says this corespondent, "is a gift shop." As for the US Disneyland, I think one of the reasons I've avoided it is the crowds. To avoid the crowds, I've been told to go there on any Super Bowl Sunday when it's raining. Now there's an idea.

* *

Figures don't lie, but liars can figure. That old adage can be applied to a good deal of the food offered in your local super market. Increasingly, food nutritionists and scientists are showing that eating the right food is directly connected with good health. But how do you find the right food? Easy, the best foods are vegetables, fruits, grains. I personally believe that the healthiest diet is vegetarian (although I do eat some chicken and fish).

But here is what you have to put up with in boxed and canned food. Read the labels. Did you notice that canned soups are loaded with salt, up to 1,000 milligrams per can (the whole country's hooked on salt). ConAgra's Kid Cuisine Fried Chicken advertises 88% fat free. Yet each serving contains 28 grams of fat, half of what a child should eat in one day. Kellogg's NutriGrain Cereal Bar says "made with real fruit." But each bar contains fruit equal to roughly 1/50 of an apple. Post Honey Bunches of Oats cereal -- you'd have to eat 28 bowls of it to end up with as much oats as you would have in one bowl of hot oat-bran cereal.

* *

I don't have time or patience to read most novels, but I am a film nut. The best appliance I ever bought was a Kloss projector with a giant six foot curved screen. The Kloss company has been out of business for years, but I've never seen a projector to equal Kloss

for clarity and reliability (Kloss was a genius but a poor business man), and I wish someone would revive the company. Thanks to Kloss, I see my movies via rented tapes, plus cable stations HBO, Cinemax and Showtime. As for movie reviews, I like the reviews in *USA Today*, *Entertainment Weekly* and *People* (*People* reviews are tough and sophisticated). But maybe the best reviews appear in *Daily Variety*, the trade paper. Published five times a week *DV* will give you all you want to know about Hollywood and more *(Daily Variety*, 5700 Wilshire BLVD, LA, CA 90036 -- price $129 a year).

* *

USA Today, a paper which I have always liked, is now the second biggest selling newspaper in the nation (first is the *WSJ*). But since its inception, *USA Today* has cost Gannett a whopping $800 million. The problem: they can't get enough advertising (local advertisers are afraid of a national newspaper). This year the estimate is that *USA Today* will lose $20 million. It's to Gannett's credit that they keep this paper going. Other newspapers have ridiculed *USA Today,* but they've also copied many of its features (yep, even the *NY Times* is coming up with color).

* *

Two weeks ago Rep. Henry Waxman (Dem. CA) and House Majority Leader Richard Gephardt introduced a bill that would tax interest on municipal bonds. The bill would go towards financing $45 billion for long-term nursing home care. Russell comment: Now that almost all tax shelters have been taken away, one big target remains -- tax free municipal bonds. The attack on munis, it seems, has begun (For me, this is just one more reason not to vote for the Democrats).

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On March 6 a seat on the NYSE sold for $480,000. That was down $95,000 from the last sale. If you're looking to buy a seat, the current bid is $400,000 and the asked is $520,000.

* *

I just received a letter in the mail which starts like this: "Unjust regulations and smothering taxes are making it more difficult for California businesses to succeed in today's increasingly competitive market. Because of this, we would like to invite you to consider relocation to Las Vegas, Nevada. We sincerely believe that the more you look at Las Vegas the more you will like what you see."

Well, the main thing I like about Las Vegas is that it's situated in a state that has no income tax. The fact is that one in four California companies is planning to move all or part of their operations out of this state. Frankly, if my kids didn't live here I would seriously consider getting out. A friend who moved to Texas writes me that he can buy a house every other year with the money he saves, now that he's left California. It's an argument that's hard to beat.

* *

What's the target for the next federal tax hit? This from the *NY Times*, April 20: "Full taxation of fringe benefits such as health insurance, pension savings, and the like would both raise substantial tax revenues and go a long way towards improving tax equity, the General Accounting Office has said in a new study." Russell comment: Pensions are where the money is, and I've wondered for years how long it will be before the government gets its claws into the pension plans.

* *

Easy Rider out of Agoura, CA is the nation's largest selling motorcycle mag. It's aimed 99% towards Harley owners. Here are some of the booklets offered in a current *Easy Rider* ad: "Techniques of Revenge"; "Hitting Without Getting Hurt"; "How to Disappear Completely And Never Be Found"; "The Outlaw's Bible"; "The Complete Guide to Lock Picking"; "Methods of Disguise"; "The Big Book of Secret Hiding Places."

* *

Hollywood: Carolco Pictures produced the big winner, "Terminator 2", plus this year's sensation, "Basic Instinct." Hit movies didn't help. After refinancing, Carolco posted a 1991 deficit of over a quarter of a billion dollars. Expenses too high, too many losers.

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Subscribers should know by this time that I think China could be the economic wave of the '90s. Two factors have moved China's leaders. (1) China has a big unemployment problem. (2) The leaders were shaken by the collapse of Communism in the Soviets, and they realize that only the free enterprise system works. So what to do? Economically, allow free enterprise to move into Southern China while keeping a stern hand on the political situation. The fact is that socialism is disappearing from China and the private share of the economy has been booming. The following is from the April 13 *International Herald Tribune*: "With the growing integration of Hong Kong and the Guandong Province in Southern China, an economic partnership is emerging that in coming years may become a formidable force in Asia. Hong Kong is becoming the financial capital for Southern China, and it sometimes seems that Hong Kong is taking over China instead of the other way." Russell comment: Here's an interesting fact to mull over: the average wage in China is 27 cents an hour. I'd call that tough competition, wouldn't you?

* *

The *Economist* uses its famous "Big MacCurrencies" test to determine what various currencies are worth or at least what they will buy in terms of a Big Mac Hamburger (a Big Mac has become a universal standard). Here are some underpriced currencies (compared to the dollar) and the percentages: compared to Australia the dollar is underpriced by 13%, Brazil underpriced by 24%, China by 89%, Hong Kong by 91%, Hungary 31%, Russia 273%. So if you want bargains in travel and goods, these are the places to take your dollars. The following are overpriced currencies (in percentages compared with the dollar): Belgium 32%, Britain 28%, Canada 6%, Denmark 49%, France 33%, Germany 20%, Italy 34%, Japan 24%, Spain 26%, Sweden 49%. These are the places where you're going to complain that you get too little for your hard-earned bucks. But what the heck, Paris is still a gorgeous city -- and the food!

* *

Politically Correct? Can you imagine the screaming and the riots that would have occurred if the movie had been titled, "Black Men Can't Jump"?

* *

When was young I was totally opposed to capital punishment. I still think government sponsored killing is sick. But the truth -- I have kids, and if someone murdered one of my kids I tell you I'd personally be willing to pull the trigger on them. However, one of the arguments for capital punishment is that it is a deterrent. Really? If that's true, then let people (including criminals and potential criminals) SEE IT. Let's put in on late-night TV. If it's really supposed to be a deterrent, then damn it, let people see it. Also, the majority of Americans want capital punishment. OK, let them have it. But I think it's disgusting to kill in the hidden recesses of some state penitentiary. The people want it, many political candidates embrace it openly -- OK, I SAY, IF WE WANT IT, WHY ARE WE AFRAID TO LOOK AT WHAT WE WANT!

* *

The cost of "reviving" east Germany is turning out to be far higher than anyone first believed. Regarding the economy, Birgit Breuel, head of the agency charged with privatizing the east German economy said, "I knew it was worse than the statistics showed, but I had no idea just how catastrophic it was. It was a major shock." So in order to revive east Germany, the public sector is stacking up record debts. This year alone, the public debt will top $61 billion. On top of this, the German money supply is rising rapidly and German inflation is pushing 5% (a disaster, by German standards). All this is keeping German interest rates high, and it is slowing economies throughout Europe (almost all the major European currencies are tied to the mark).

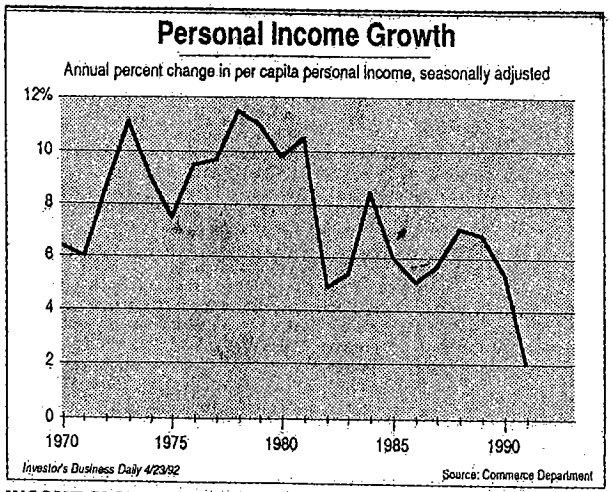
* *

According to the Heritage Foundation,"By the end of the 1993 fiscal year President Bush will have increased domestic spending 70% more than the combined terms of presidents Carter and Reagan. But the end of Bush's first term federal domestic spending will have increased 24.5% after adjusting for inflation -- six times higher than during the eight years of the Reagan administration." As a result, the Foundation finds Congress and the White House guilty of "already having spent the so-called peace dividend expected from cuts in defense spending." Actually, of course, Bush's new military budget cuts very little from the defense budget. The fact is that the US is to spend $1.5 trillion on the

military in the next five years. Somebody, please, find the Pentagon an enemy.

* *

If business is improving and GDP is turning up, why are so many Americans unhappy? And why is Bush sweating? Maybe this chart tells the story. One time-tested formula is this -- if the gross domestic product is accelerating upward in the third quarter of an election year, the incumbent president will remain in office. If, during the third quarter, GDP is sluggish or slipping, say good bye to the prez. Of course, Mr. Perot may change all this. With Perot out-polling Bush in Bush's own state of Texas, who knows.

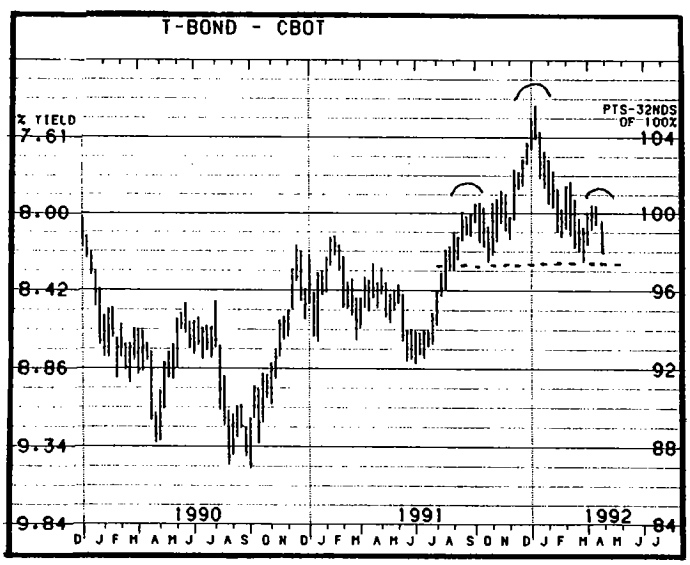


INCOME SLOWDOWN: Americans' per capita income grew just 2.1% in 1991, the slowest pace since the recession year of 1958, the Commerce Department said. The small rise was half the 4.1% rate of inflation in 1991, leaving the average income earner less well-off for the year. It was the first time since 1982 that incomes failed to keep up with inflation.

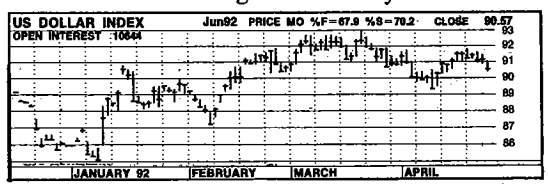
CHARTS OF INTEREST: One key to the whole economic picture is the bond market. Bonds like low inflation, bonds like sluggish business, bonds like a favorable trade balance, and bonds like low and preferably declining federal deficits.

The bonds topped out in January, despite the public's frantic bond-buying buying spree (which is still going on). During March, the June bond contract got down as low at 97. A rally then took the June bonds back just above 100, whereupon a new decline began. The key now is whether the June bond contract can hold above 97.

This is a weekly chart of the T-bonds (courtesy of *Commodity Research Bureau*), and you can see that a potential head-and-shoulders pattern has formed. A break below 97 would send the bonds testing the 92-94 level. At that level the long T-bond would be yielding around 8.75%. If that happens, Wall Street will not be happy, to say the least.



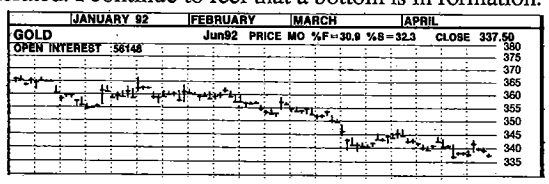
This is *Investor's Business Daily's* chart of the June US Dollar Index. The Index is indecisive here although 89 is the downside support level and a bullish breakout would require a rally above 93. Firming interest rates (i.e, rising bond yields) here should help the dollar. Also, the German Mark is having troubles via the massive expenses entailed with reviving East Germany.



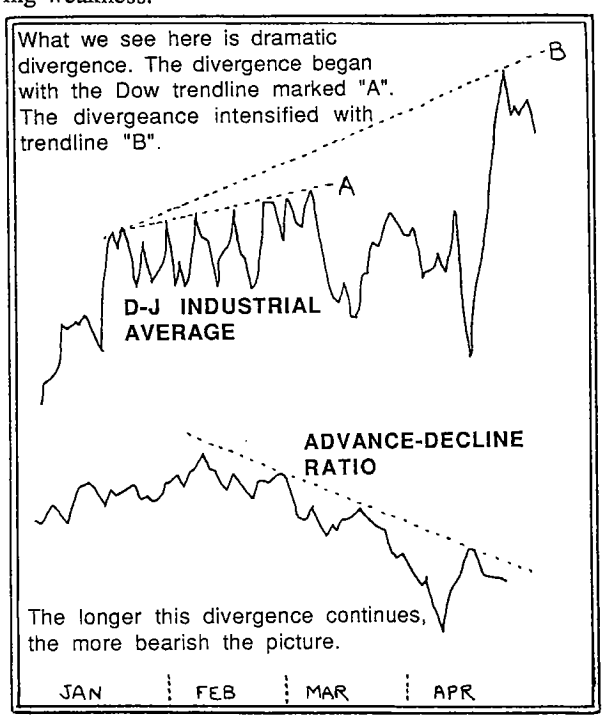
GOLD: *Market Logic's* [(800) 442-9000] Gold Model has flashed a buy signal for gold. Their Gold Model is based on the rate of inflation. Writes *Market Logic*, "It is ironic, but not withstanding the subdued rate of economic activity, inflationary pressures are rising. In fact, in four of the last five months the Consumer Price Index has increased at an annual rate of at least 4%, including a hefty 6% annualized increase in March. Over the last twelve months, the CPI has increased 3.2%. That is above the twelve-month increase measured three months earlier, which by our model signifies an accelerating rate of inflation."

My comment is that with the massive amount of bank credit that the Fed has introduced into the economy, it does not surprise me at all that the rate of inflation is beginning to turn up. Furthermore, if the broader measures of money supply (M-3 and M-4) start to turn up, inflation could easily accelerate higher. If that occurs, the Fed would be put in a difficult situation. The Fed would have to choose between allowing inflation to heat up or allowing short-term interest rates to rise (long-term rates are already in the 8% area). My guess is that the Fed is so worried about the pre-election economy that they would not fight early inflationary indications.

This chart, courtesy of *Investor's Business Daily*, shows gold "down on its fanny," but actually, since March the decline has decelerated. I continue to feel that a bottom is in formation.



LATES NOTES: This chart illustrates the "heaviness" in the majority of stocks on the NYSE. The Dow has been covering up growing weakness.


What we see here is dramatic divergence. The divergence began with the Dow trendline marked "A". The divergeance intensified with trendline "B".
B
A
D-J INDUSTRIAL AVERAGE
ADVANCE-DECLINE RATIO
The longer this divergence continues, the more bearish the picture.
JAN
FEB
MAR
APR

NEXT MAILING: May 13, 1992